

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CALIFORNIA GAS COMPANY for Authority to Transfer Cushion Gas in its Aliso Canyon And La Goleta Storage Fields to Alleviate the Impact of High Gas Prices on CARE Customers. (U 904 G).

Application 05-10-012
(Filed October 2005)

**SCOPING MEMO AND RULING
OF ASSIGNED COMMISSIONER AND ADMINISTRATIVE LAW JUDGE**

Summary

On October 11, 2005, Southern California Gas Company (SoCalGas) filed the above-captioned application requesting, among other things, authorization to reclassify 4 billion cubic feet (Bcf) of cushion gas from two of its natural gas storage fields, to working gas, and that the gas in kind be transferred to its ratepayers in the California Alternate Rates for Energy (CARE) program at the book cost of about \$1.5 million. The reclassification of the gas will be made possible by reworking the wells so that less cushion gas will be needed to maintain minimum gas reservoir pressure, while continuing to provide the current level of deliverability. SoCalGas contends that as a result of the reclassification and transfer of the gas at book cost will help to reduce the impact of expected high winter gas prices on CARE customers.

SoCalGas requested in its application that the Commission shorten the time for the filing of protests and replies, that no evidentiary hearings be held, and that the Commission adopt a decision at its Friday, November 18, 2005

meeting. On October 20, 2005, a ruling was issued that shortened the protest and reply period, and noticed a prehearing conference for November 2, 2005.

Today's scoping memo and ruling addresses the scope of issues that will be addressed in this proceeding, and the schedule for resolving the issues. A draft decision addressing the authorizations that SoCalGas needs will be prepared for the Commission's consideration for the November 18, 2005 meeting. A prehearing conference to address the schedule for resolving some of the ratemaking issues raised by the application will be held on Monday, December 12, 2005 at 10:00 a.m.

Background

As provided for in the October 25, 2005 ruling, four parties filed pleadings about SoCalGas' application. The Utility Reform Network (TURN) filed a protest to the application, and separate responses to the application were filed by Coral Energy Resources, L.P., the Office of Ratepayer Advocates (ORA), and the Southern California Generation Coalition (SCGC). On November 1, 2005, SoCalGas and TURN filed separate replies to the protests and responses.

A prehearing conference was held on November 2, 2005 to discuss the scope of the issues to be covered in this proceeding and the procedural schedule for resolving the issues.

Scope of Issues

In its application, SoCalGas discussed the issues that it believes needs to be addressed by the Commission. Interested parties were provided an opportunity to raise issues in the protests or responses to the application, as well as at the November 2, 2005 prehearing conference. Based on the application, the parties' protest and responses, and the discussion of the issues at the prehearing

conference, the following are the scope of issues that will be addressed in this proceeding:

1. Whether the Commission should authorize the rework of the wells to free up 4 Bcf of cushion gas?
2. Whether authorization under Public Utilities Code § 851 is needed to reclassify 4 Bcf of cushion gas as working gas and to transfer that gas at book value to customers of the CARE program?
3. Whether the rework of the wells is exempt from California Environmental Quality Act review?
4. How should the costs of the rework project be paid for?
5. By doing the rework on the wells, will non-core customers benefit from the additional gas storage capacity that will be created?
6. How should the revenues from the sale of the additional 4 Bcf of gas storage capacity be treated?

No one requested evidentiary hearings on issues 1, 2, and 3.

At the prehearing conference, the parties discussed issue 4 and the various proposals to recoup the proposed project costs. SoCalGas proposes that the costs of the rework project be put into ratebase, and that the associated revenue requirement for these project costs be paid for by CARE customers. ORA advocates that the ratebase proposal of SoCalGas be adopted.

TURN proposes that instead of ratebasing the project costs, that the costs be recovered using one of the following three methods. First, the project costs can be recovered from the revenue from the sale of the additional 4 Bcf of storage that will be created from the reworking of the wells. The second method offered by TURN is to sell the 4 Bcf of reclassified gas into the marketplace, and to deduct the project costs from the sale proceeds. TURN's third method views the

rework costs associated with the project as already being included in rates as part of SoCalGas' future reworking costs and thus, there is no need to recover the project costs.

Although no one requested that hearings be held on issue 4, the administrative law judge (ALJ) suggested at the prehearing conference that the different approaches for how the project costs could be recovered could trigger the need for hearings and a deferral of issue 4 to a later time.

Issue 5 was also discussed in the context of who will benefit from the rework project and who should pay for the project costs. The ALJ pointed out that this issue could be considered in the context of issue 4 as to who should pay for the project costs, or the issue could be considered when issue 6 addresses who should receive a share of the revenues from the sale of the expanded gas storage capacity. Issue 5 may require hearings.

After discussing the possible methods of recovering the project costs, and the interaction of issue 5, TURN and the other parties appear willing to allow the ratebasing of the project costs to occur, so long as the issue of who should be responsible for paying those costs is revisited in the near future, along with the issue of who should get the benefit of the revenue created by the additional storage.

Since the additional storage capacity that is to be created by the rework project will take several months, no one opposed deferring issue 6 to a later time. SCGC suggests that issue 6 be considered in Phase II of Rulemaking (R.) 04-01-025, where it has argued that SoCalGas made excessive profits from the unbundled gas storage program. Since the Phase II issues in R.04-01-025 were submitted on October 11, 2005, SCGC proposes that the Phase II issues be

reopened and issue 6 considered there. SoCalGas opposes reopening that phase of R.04-01-025.

We believe that issue 6 should be considered in a later phase of this proceeding because the issue is related to the rework project that is being proposed in this application. In addition, the Phase II issues in R.04-01-025 have already been submitted. As set forth below, a prehearing conference shall be held on December 12, 2005 at 10:00 a.m. to discuss how issue 6 and issue 5 should be resolved. Based on the comments at the November 2, 2005 prehearing conference, evidentiary hearings on issues 5 and 6 may be needed. Since the additional 4 Bcf of storage is likely to become available before the 2006 storage injection season begins, the schedule below anticipates resolving these two issues in a timely manner.

Schedule

The October 20, 2005 ruling stated that at or following the prehearing conference, a determination on whether or not to prepare a draft decision for the November 18, 2005 meeting would be made. No one requested evidentiary hearings on issues 1,2,3 and 4, as identified above. Some of the parties suggest that hearings may be needed on issues 5 and 6.

Based on the comments at the prehearing conference, we intend to proceed with the issuance of a draft decision that will address the "authorization" issues that have been identified as issues 1-3. The draft decision will also address issue 4, and to some extent, issue 5. This draft decision will be placed on the November 18, 2005 agenda for the Commission's consideration.

Issue 6, and its interaction with issue 5, will be considered in a subsequent phase of this proceeding. Issue 4 may also be revisited in the context of issue 5. Evidentiary hearings may be needed in that phase. As mentioned above, a

prehearing conference will be held on December 12, 2005 to discuss the schedule for resolving these issues.

The following schedule will be followed to resolve the issues in this proceeding:

Event	Date
Prehearing conference held.	November 2, 2005
Scoping Memo and Ruling issued	November 7, 2005
Draft Decision issued for comment	On or before November 9, 2005
Comments to Draft Decision	November 14, 2005
Reply comments to Draft Decision	November 16, 2005
Decision adopted by the Commission	November 18, 2005
Prehearing conference regarding remaining issues	December 12, 2005 at 10:00 a.m. in San Francisco
Schedule for prepared testimony to be served	To be determined.
Evidentiary hearings	To be determined.
Briefing and submission of remaining issues	To be determined
Draft or proposed decision on remaining issues released for comment.	To be determined
Comments and reply comments on Draft or Proposed Decision	To be determined.
Decision on remaining issues adopted by the Commission.	On or before April 28, 2006.

The application was filed on October 11, 2005. Public Utilities Code § 1701.5 provides that in a ratesetting proceeding, the issues raised in the scoping memo are to be resolved within 18 months of the date the scoping memo is

issued. It is expected that this proceeding will be completed within the 18-month period as shown in the schedule above.

Any party intending to seek intervenor compensation in this proceeding shall file and serve a notice of intent to claim compensation within 30 days of the November 2, 2005 prehearing conference.

Discovery

If discovery disputes arise between the parties, which cannot be resolved by meeting and conferring, the parties should raise these disputes in accordance with Resolution ALJ 164.

Service List

A new service list for this application was created at the November 2, 2005 prehearing conference. This service list may be updated from time to time. The latest version of the service list can be downloaded from the Commission's website at www.cpuc.ca.gov.

Anyone serving documents in this proceeding shall electronically serve the service list using the electronic service rules set forth in Rules 2.3 and 2.3.1 of the Commission's Rules of Practice and Procedure. Any documents served on the assigned ALJ and the assigned Commissioner shall be by both electronic mail and by delivery or mailing of a copy of the document.

Categorization of Proceeding

This application was preliminarily categorized as ratesetting in Resolution ALJ 176-3161 on October 27, 2005. Today's ruling confirms that categorization. Anyone who disagrees with this categorization must file an appeal of the categorization no later than 10 days after the date of this ruling. (See Rule 6.4.)

Since this ruling determines that this is a ratesetting proceeding, and evidentiary hearings may be held, ex parte communications are governed by Rules 7 and 7.1.

The principal hearing officer for this proceeding shall be ALJ John S. Wong.

Therefore, **IT IS RULED** that:

1. The scope of issues for this proceeding, and the schedule for resolving these issues, is set forth in the body of this scoping memo and ruling.
2. A prehearing conference will be held on Monday, December 12, 2005 at 10:00 a.m. at the State Office Building, 505 Van Ness Avenue, San Francisco, to discuss the schedule for resolving issues 5 and 6, and possibly revisiting issue 4 in the context of issue 5.
3. This proceeding is categorized as ratesetting.
4. Any party intending to seek intervenor compensation in this proceeding shall file and serve a notice of intent to claim compensation within 30 days of the November 2, 2005 prehearing conference.
5. Discovery disputes shall use the procedures set forth in Resolution ALJ 164.
6. Parties to this proceeding shall use the service list that was created at the November 2, 2005 prehearing conference, as may be updated from time and time, and which may be downloaded from the Commission's website.
 - a. All documents filed in this proceeding shall be served on the service list using the electronic service rules contained in Rules 2.3 and 2.3.1., and the assigned Administrative Law Judge and the assigned Commissioners shall also be served by electronic service and by delivery or mailing of a copy of the document.

Dated November 7, 2005, at San Francisco, California.

/s/ SUSAN P. KENNEDY
Susan P. Kennedy
Assigned Commissioner

/s/ JOHN S. WONG
John S. Wong
Administrative Law Judge

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of the original attached Scoping Memo and Ruling of the Assigned Commissioner and Administrative Law Judge on all parties of record in this proceeding or their attorneys of record.

Dated November 7, 2005, at San Francisco, California.

/s / ERLINDA PULMANO

Erlinda Pulmano

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

The Commission's policy is to schedule hearings (meetings, workshops, etc.) in locations that are accessible to people with disabilities. To verify that a particular location is accessible, call: Calendar Clerk (415) 703-1203.

If specialized accommodations for the disabled are needed, e.g., sign language interpreters, those making the arrangements must call the Public Advisor at (415) 703-2074, TTY 1-866-836-7825 or (415) 703-5282 at least three working days in advance of the event.